

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

Executive Registry

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April 22, 1968

NATIONAL SECURITY COUNCIL MEETING NO. 584

April 24, 1968 -- 12:00 noon

AGENDA

Eastern Europe -

Discussion of State Department paper circulated
to Council members.

State Dept. review
completed

NSC review
completed.

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EASTERN EUROPE

I. Perspective on Eastern Europe

Evolutionary changes in the direction of internal liberalization and economic reform, increased independence, and limited movement toward association with the West continue. These positive trends reflect the vitality and aspirations of the peoples and the growing recognition which East European leaders are giving to political and economic realities.

These changes are a cause for satisfaction. However, their pace and character vary significantly from country to country. Experience shows also that further forward progress is likely to be subject to interruptions and even, as in the case of Poland, substantial retrogression.

These changes provide us with improving opportunities for our policy of "building bridges" to Eastern Europe. At the same time, they show that the policy of "building bridges" both by us and by western European countries, is achieving positive results.

II. Policy Objectives and Inhibiting Factors

We seek, within the framework of building world peace and a secure and stable European community, to encourage the positive trends in Eastern Europe and to use the opportunities they provide (1) to improve the general climate of relations, (2) to reestablish the bases for reassociation with the West, and (3) to resolve our outstanding bilateral problems.

Apart from continuing ideological differences, the impact of Viet-Nam has limited, although not precluded, our bridge building efforts by inducing restraints on both sides. This has been most applicable to the development of better political and

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2

economic relations. To a lesser degree, it has influenced our cultural relations. We operate, therefore, under substantial restrictions resulting from negative public and Congressional attitudes.

III. Recent Developments in Eastern Europe

The current ferment is most dramatically shown in Czechoslovakia and Poland. While it is too soon to assess the full meaning of recent events, their impact on the Soviet system, on life and society throughout Eastern Europe generally and on future developments is sure to be significant.

1. Czechoslovakia: Party First Secretary Alexander Dubcek, who replaced hard-liner Novotny in January, has formed a coalition of intellectuals, students and, to an extent, workers, which has been able to force Novotny's resignation from the Presidency and to remove pro-Novotny members from the Party Presidium and major Government positions. The new Action Program, published on April 10, emphasizes national reconciliation with some compromises based on recognition of individual and group rights and a balanced federation between Czechs and Slovaks. The Program reaffirms the Party's leadership role but emphasizes this is to be one of guidance rather than of detailed direction and that the Government will be allowed to carry on its proper functions.

It calls for decentralization and management reforms in the direction of a socialist market economy, constitutional guarantees of individual rights and liberties, freedom to travel abroad and National Assembly control over internal security forces. There will be many difficulties in implementing the Program but there has been extraordinary freedom of the press, speech and assembly during the past several months.

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3

Dubcek has reassured the Soviet Union of Czechoslovakia's socialist direction, solidarity and loyalty. He expressed the desire, however, for good relations with all countries, including the US.

The Party daily "Rude Pravo" said on April 19 Czechoslovakia would not be "a weak brew of a common political line or of the policy of the Soviet Union. Nobody can prescribe for a party or a country what is and what is not its international duty."

US Position: Our position, like that of other Western countries, is to make clear informally and discreetly to the Czechs on appropriate occasions that we welcome the steps they are taking toward liberalization. We believe it advisable to avoid any steps at this time likely to embarrass the new leadership in its internal course or in its delicate relationships with the Soviet Union and other East European neighbors.

Contingencies involving Soviet economic pressures or other developments which might occasion Czech appeals to the US for economic support have been studied. Under present legislative restrictions (no aid, PL-480, Exim loans or guarantees, MFN tariff treatment), our ability to respond in such circumstances is limited. In this connection, Czechoslovakia has been a substantial supplier of arms to North Viet-Nam.

While prospects for improved bilateral relations appear more favorable, the major issue of a claims/gold settlement remains. The Czechs have said they will shortly respond negatively to our November 1967 proposals for a settlement of these problems. We have urged they leave the door open for negotiation.

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We are not prepared to consent, as the Czechs desire, to release the Nazi-looted Czech gold (held by the Tripartite Gold Commission) until there is a satisfactory settlement of US financial claims. The gold is our only effective leverage for such a settlement. The Czechs have mounted a major propaganda campaign, most recently with an April 19 interview by the new Foreign Minister Hajek, to pressure us for the return of the gold.

The case of the Czech defector General Sejna, whose extradition has been requested by the Czechs, is still under consideration. Our probable decision in due course to refuse extradition is not likely to have any permanently damaging effect on US-Czech relations.

2. Poland: Student demonstrations against censorship and restrictions on cultural freedom, which began on March 8, have now quieted down. Deep-seated resentments remain. The Party/Government leadership has used repressive policy measures and warned it would not tolerate further disturbances. The leadership has launched an anti-Semitic propaganda campaign aimed primarily at removing from the Party, State and cultural apparatus those Communists of Jewish origin who played a key role in Poland during the Stalinist period. Many Polish Government and Party officials, as well as intellectuals, have been fired as part of the drive against diverse "opposition" elements including not only those identified with the Polish regime during the Stalinist period but also "Zionists", revisionists and liberals. Many, although not all, of these are of Jewish background. In this atmosphere created by anti-Semitic utterances of the leadership, the small Jewish community (20-30,000) feels under strong psychological pressures. There is, however, as yet

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5

no firm evidence that the Jewish community generally has been subjected to physical persecution or to religious persecution in the sense of interference with worship.

The current use of harsh police measures and the resort to an anti-Semitic campaign evidence the failure to materialize of the dream of freedom which took form with the events of October 1956 and Gomulka's return to power at that time.

US Position: The Department's press spokesman on April 1 made clear that the US deplors anti-Semitism wherever it occurs. While declining to discuss recent Polish events, he drew attention to the tragic consequences which historically have resulted from the encouragement of anti-Semitism. We are following developments in Poland very closely but until this complex situation, involving chronic Party-Government factionalism, is clarified we are exercising great care and restraint in any US official public comments.

Over the past several years our bilateral relations have not developed favorably. We have encountered various difficulties in matters such as the size and treatment of our military attache staff, treatment of US citizens, and US Social Security payments to annuitants in Poland. Planning for an English Language Teaching Program in Poland is continuing but the implementation of this program is dependent on a Congressional local currency appropriation.

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6

3. Romania: Internally, the Party-Government leadership maintains firm orthodox control. Externally, Romania continues to pursue a course based on national interest highly independent of the Soviet Union. It gains freedom of maneuver from its rich endowment in natural resources. Romanian public media have reported objectively on recent Czech developments and the Romanian Government seems to approve Czechoslovakia's new course.

US-Romanian bilateral relations have not been materially affected by Viet-Nam and continue to show improvement, including progress in cultural exchanges. Romanian Deputy Premier Birladeaneau, Chairman of the National Council of Scientific Research, has accepted an invitation from the President's Science Adviser to visit the US in May. Romania continues to explore the possibilities of purchasing equipment and technology in the US for a heavy water plant for its nuclear power program and for a synthetic rubber plant.

4. Yugoslavia: Yugoslavia--the first East European country to throw off Soviet domination (1948) and to pursue successfully a fully independent national course--continues to show its independence and to push aggressively the development of a free market economy. Political and social institutions are being increasingly liberalized. The response to the new Czech leadership has been favorable and there has been Yugoslav press criticism of the retrogressive tendencies in Poland.

Despite Viet-Nam and the Congressional prohibition (1966) on PL-480 sales, our bilateral relations continue to develop favorably in the political and economic as well as in the cultural exchanges field.

5. Hungary: The Kadar Government continue to follow a relatively conciliatory policy internally. The economic reforms which entered into effect on

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7

January 1 are designed to adapt the existing command economy to many of the features of a socialist market economy. In foreign policy, Hungary, highly dependent on the Soviet Union politically and economically, follows closely the Soviet line.

No early progress is in prospect toward the settlement of outstanding bilateral problems, such as US claims. Reacting sharply to the defection of the former Hungarian Charge in Washington, Radvanyi, the Hungarians have still not named an Ambassador, although our Ambassador was accredited at Budapest last fall.

Hungary shows some sympathy to Czech developments. However, conscious of its own 1956 experience, it clearly believes that events should not be allowed to get out of hand. Hungarian media have generally followed the hard-line position of the Polish press on student unrest.

6. Bulgaria: The Bulgarian leadership, adhering to orthodox internal policies and bound tightly to Soviet foreign policy positions, has tried to insulate Bulgaria from liberalizing influences. Bulgarian media have given extremely restricted coverage of Czech and Polish events by stressing Czechoslovakia's continuation as a member of the socialist camp and echoing the Polish Government's official line.

US-Bulgarian relations are limited, though a consular convention is under discussion and the Bulgarians are showing some interest in acquiring US industrial plants and technology. A Bulgarian trade mission is scheduled to visit the US in May.

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8

7. Albania: The Albanian Party-Government leadership, closely aligned with Red China ideologically and in foreign policy, maintains the most repressive internal system in Eastern Europe. Its view of liberalization in Czechoslovakia and ferment in Poland is totally negative. We do not recognize or have official relations with the Albanian regime.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506



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March 5, 1968

NATIONAL SECURITY COUNCIL MEETING NO. 582

March 6, 1968 -- 12:00

AGENDA

Inter-American Objectives and Problems -- 1968

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EXHIBIT

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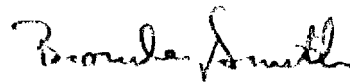
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March 5, 1968

MEMORANDUM FOR THE NATIONAL SECURITY COUNCIL

The attached paper discussing objectives and problems in the Inter-American Region will be considered at the National Security Council meeting scheduled for Wednesday, March 6, 1968.



Bromley Smith
Executive Secretary

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INTER-AMERICAN REGION

Our major policy objectives and problems for 1968 are set forth below under two principal headings, multilateral and bilateral.

MULTILATERAL

I. Alliance for Progress

Our major objective this year is to maintain the forward momentum of the Alliance for Progress toward achievement of the goals set in the April 1967 Summit Action Program. This will require maximum effective utilization of reduced AID appropriations (especially for education, agriculture and the development of institutions that strengthen democratic growth - Title IX), increased efforts to accelerate Latin American action on resource mobilization and constructive economic and social policies (especially economic integration), and increased external economic assistance from other Free World sources.

Our major problem is how to dispel growing Latin doubts about the sincerity of the U.S. commitment to the Alliance and how to galvanize the Latin American governments to move rapidly forward on bold economic and social reform programs. Appropriation cuts this year and possible restrictive trade legislation have aroused serious anxieties in Latin America. There are also signs that some Latin American governments are reluctant to take the next, more difficult steps necessary for development and some have not enlisted the full cooperation for achievement of Alliance goals of those who share economic and political power. Latin American exports dropped seriously in 1967, thus intensifying Latin pressures for trade assistance. Progress on economic integration within the LAFTA area has been limited and there will be considerable problems in 1968 in inducing the larger countries (Argentina, Brazil, Mexico) to take a leadership role.

---By shifting some AID funds from less to more deserving countries and by making stronger efforts to obtain inputs from multilateral and other sources, we can blunt the ill effects of

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-2-

this year's appropriation cut. Partial untying of aid would also be helpful. But next year's Congressional action must unequivocally show our determination to meet our commitments.

---The Central American Common Market faces a number of monetary and trade difficulties. We are studying ways to assure the continued viability of the CACM and we shall support other temporary sub-regional trade areas, such as that formed by the Andean countries, as stepping-stones to a regional Common Market.

---We shall continue our efforts to find ways to strengthen the Inter-American Committee on the Alliance for Progress as a multilateral policy-making body.

---More and more Latin countries are showing an interest in family planning and we are assisting those which ask our help, but more effective Latin American action is needed. Any U.S. involvement must be undertaken with full awareness of Latin sensitivities.

---The Latins believe, and we agree, that a more rapid expansion of their exports is essential to their development. One of the principal thrusts of our AID programs is toward creating conditions of financial stability, not only to promote development, but also to make possible increased and diversified Latin American exports on a competitive basis. We have reached agreement in principle with the other OECD countries on some system of generalized preferential tariffs for all developing countries by the developed countries. We have joined in the establishment of a Latin American Export Promotion Center. Finally, we have made clear that the Administration will continue to oppose proposals for restrictive trade legislation. Still, we can expect pressure for U.S. preferential tariffs for Latin American products, especially if there is no progress on the temporary generalized preferences for all developing countries.

---If we can resolve the soluble coffee issue, favorable Congressional action on a new International Coffee Agreement seems possible. Failure to renew the agreement will hurt severely in Latin America and will be laid at our door. We also

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-3-

will probably be holding continued discussions on possible cocoa and sugar agreements.

---We must continue our strong support for those democratic, forward-looking governments willing to take the political risks inherent in bold social and economic reforms.

---Unless we maintain the forward momentum of the Alliance, we can expect an increase in the "what have we got to lose" attitude already becoming apparent in a few Latin American countries, and a resurgence of political polarization and instability.

II. Strengthening the OAS

Our objective is a more dynamic and efficient Organization of American States which will assume greater responsibility in the promotion of Latin American development and the limitation of Latin American military expenditures affecting economic development resources.

One problem in achieving a more effective OAS has been the lack of efficient administration and executive leadership in the OAS General Secretariat. We expect this situation to improve with steps now being initiated by the Secretariat and with the election of Galo PLAZA Lasso as Secretary General.

---We favored the election of the most capable available candidate as Secretary General of the OAS and hence we supported Plaza for this post. While we were willing to support a non-U.S. citizen for Assistant Secretary General, we consider it important that a U.S. citizen be appointed as Assistant Secretary General for Administration, a position yet to be established, in order to help assure much needed administrative improvements. We believe that there will be general support for this from the other member states.

---Ratification by two-thirds of the OAS member states of the 1967 Protocol of Amendment to the OAS Charter, thus bringing it into

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-4-

force, will be an important step toward a more effective organization. The Protocol is now before the U.S. Senate for its advice and consent to ratification and we anticipate approval shortly. Thus far, three OAS member states have deposited their instruments of ratification.

III. Subversion and Insurgency

Our objective is continued improvement in the capabilities of Latin American countries to control and eliminate subversion and insurgency and the establishment of subregional cooperative security arrangements, particularly in the Caribbean area.

The main problem is that Castro's Cuba continues to advocate and support "wars of national liberation", and that the Latin American countries remain a prime target of direct and indirect subversion by Cuba, the Soviet Union, and, to a lesser extent, Communist China.

---The communist movement in Latin America has lost ground in recent years. Much of the initial enthusiasm for Castroism has cooled and factional rivalries have produced divisions in communist ranks in many countries. In 1967, communist-supported terrorist and guerrilla groups were effectively eliminated in Bolivia and Nicaragua, suffered serious setbacks in Guatemala and were brought largely under control in Colombia and Venezuela.

---Official Cuban statements and the record of Cuban activities clearly indicate that Havana continues to seek opportunities to foment and support armed violence, both urban and rural, against other Latin American governments.

---The security forces of some Latin American countries still have serious deficiencies in such areas as intelligence collection and analysis, communications and mobility. Prudence requires continuing MAP support in those countries where there are still active insurgencies and in those which are inherently vulnerable to insurgency because of geographic location or economic, social or political conditions.

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-5-

---We shall continue to foster regional cooperation against subversion, e.g., through the O.A.S., combined military exercises and periodic meetings of the Ministers of Interior of Central America and Panama.

---We shall continue our efforts to strengthen and expand sub-regional security arrangements. We are trying to persuade Venezuela to take the initiative toward improving and enlarging security arrangements among the Caribbean basin countries. Emphasis would initially be on police-type measures.

IV. Military Equipment for Latin America

Our objective is the avoidance by Latin American countries of non-essential arms purchases and maintenance of U.S. military influence while coordinating defense expenditures with economic and social needs.

The main problem is that our views differ from those of some Latin American countries with respect to their military and security requirements and they insist that the determination is their sovereign prerogative. Contributing to the problem is the fact that much Latin American military equipment is at the end of its useful service life and the replacement cycle is peaking at a time of growing Congressional impatience with Latin America's view of its security problems.

---We have been extremely selective in the types of equipment we have made available, but our leverage is limited, especially since military assistance is being curtailed more each year.

---Our attempt to obtain a Latin American "non-receipt" agreement at Punta del Este resulted only in an imprecise statement that unnecessary military expenditures would be eliminated.

---We are strongly urging that defense expenditures be coordinated with development needs and that expenditures for non-essential equipment be avoided. An expensive round of arms acquisition would have the most serious results. Even limited arms purchases are almost certain to be blown out of proportion in Congress.

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-6-

---We shall continue our effort to put the Latin American arms question, particularly legitimate modernization needs, into better perspective in this country and to urge moderation on the Latin Americans.

---We shall intensify our efforts to obtain an understanding on the arms problem in a multilateral Latin American forum.

---We must seek the toleration of key Latin Governments as we seek the facts we need to apply the Symington and Conte-Long amendments to the FAA. The issue is one that could stir up nationalistic sensitivities and could lead several governments to adopt a generally uncooperative attitude toward the US.

---If we go too far in our restrictive policy, the Latins may turn more and more to Europe for their equipment needs, as they see them, with resulting reduction of our influence and adverse effects on our balance of payments.

V. Marine Jurisdiction

Our immediate objective is to achieve a cessation of seizures of our tuna fishing boats by Ecuador and Peru.

The main problem is to find a mutually acceptable basis on which Ecuador and Peru, with the concurrence of Chile, will cease seizing our vessels and at the same time to avoid a confrontation over our position of a 3-mile territorial sea and a 12-mile fishery zone and the CEP position of a 200-mile territorial sea or, in Chile's case, fishery zone.

---Fishing grounds off Ecuador and Peru supply an important part of the U.S. tuna catch, which is valued at \$45-50 million annually. In the past 15 years, Ecuador and Peru have seized and detained numerous tuna boats on the high seas, occasionally firing on them, and have fined their owners for unlicensed fishing inside the claimed 200-mile limit. License fees and fines, always heavy, were tripled by Ecuador last year. These incidents have aroused members of Congress to propose various punitive and retaliatory measures. The frequency of incidents since March 1967 has been low, probably owing to restraint on the part of Ecuador and Peru induced by our diplomatic pressure and, since the first of the year,

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-7-

to a tie-up of the tuna fleet. Departure of the fleet for the southern grounds is imminent and will increase the danger of further incidents.

---We sent a special team to the CEP capitals last year to discuss the feasibility of a technical and scientific conference on fisheries that would encompass practical arrangements to end the seizures while reserving both sides' legal positions. We are awaiting a joint CEP decision to our proposal regarding the scope of such a conference.

---Should our efforts to end the seizures by negotiation fail and further incidents occur, strong repercussions in the U.S. fishing industry and the Congress are certain, especially if U.S.-supplied patrol craft make the seizures. We would then have to consider what other measures are available. International adjudication has already been proposed and rejected by the CEP governments. Other measures that have been approved by Congress include a cutback or cutoff of economic and military aid and taking back vessels on loan to the offending country.

BILATERAL

I. Bolivia

Our objective is for Bolivia to maintain its economic stability without adversely affecting its economic growth rate.

The main problem is that Bolivia faces a large budget deficit which may be aggravated by demands for wage increases.

---Although the Bolivian Government has overcome the Cuban-directed insurgency, various labor and student groups retain the capacity to provoke violent disturbances and would exploit any weakening of the economy.

---In response to a GOB request, we are considering a \$4.5 million Supporting Assistance Loan. We plan to use the leverage of the loan to insist on tax measures to increase revenue sufficiently to cover the deficit.

---Partly as a means to distract public attention from the budget situation, President Barrientos has lately been stressing

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-8-

his country's "independence" of both U.S. and Soviet "imperialism". However, we have no evidence of any change in Barrientos' pro-U.S. policies.

II. Brazil

Our objectives are continued economic stabilization and growth, forward movement in the social sector, a viable equilibrium among the civilian and military political forces in the country, and retention of Brazil as a major ally on the world and hemispheric planes.

The main problem we foresee at this point is that the government of Brazil may use its military base to stifle political opposition.

---Repercussions in the United States to such a development would in all likelihood take the form of public outcries of protest and congressional pressure to re-examine or suspend our assistance to the Brazilian Government. We recognize that our ability to prevent this train of events from transpiring is limited, but we nevertheless intend to exercise such leverage as we can to influence events in the direction of our objectives.

---We plan to continue urging Brazil to take the lead in promoting the Latin American common market, to abandon its opposition to the NPT, to stand with us in the search for ways to strengthen the OAS and hemisphere security.

---We will be as forthcoming as feasible in our economic and financial cooperation because this is an essential ingredient in promoting social and political development.

III. Chile

Our objective is to strengthen the political position of the Frei Administration, looking to the national elections of 1969 and 1970, in order to maintain a clear superiority of progressive, democratic and friendly political forces over the Communist-Socialist FRAP coalition and its allies.

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-9-

The major problem is that, although the Frei Administration has compiled an impressive record on economic and social reform, it is a minority administration which has isolated itself instead of building alliances with like minded political groups and Frei has been outmaneuvered by his communist opponents. The US is publicly identified not only with Frei's reform program but with his political fortunes as well.

---We are considering possible means of assisting Frei to repair his political situation. At some point, we will have to decide whether our support for and identification with Frei and the Christian Democratic Party (PDC) is too great, and whether we should be searching for alternatives as the 1969-70 elections approach. For example, would a coalition government be more in the U.S. interest than continuation of one-party **PDC** rule after 1970?

---There is increasing political pressure on Frei to attempt to secure for Chile a larger share of the profits being realized by US owned copper companies as a result of unprecedented high copper prices. We should be prepared to decide what our reaction would be to such a move by Frei.

IV. Cuba

Our long-range objective is to see the Castro regime replaced by a non-communist government which would not be a threat, direct or indirect, to us or to other Hemisphere nations. Our immediate objectives are to prevent the use of Cuba as a base for offensive military operations against us or other countries; to prevent or minimize Cuban subversion in other countries; to keep Cuba from becoming a model for emulation in the Hemisphere; and to maximize the cost to the Soviets of maintaining an outpost in this Hemisphere, thus discouraging them from similar adventures.

A major problem is the increasing difficulty in maintaining the cooperation of Free World countries outside the Hemisphere in the isolation and economic denial program which until now has been largely successful. On the other hand, doubts about Cuba's creditworthiness, stemming in part from uncertainty as to Soviet

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-10-

aid if Castro continues to irritate the USSR, are making some countries more cautious in extending credits.

---Despite recent setbacks to Cuban-supported subversion in Latin America, there is no indication that Castro intends to abandon his attempts to "export revolution" nor that he is considering a break in Soviet military ties.

---Because of strong repressive measures and the increased efficiency of its security apparatus, the Castro regime is able to prevent any translation of growing discontent into a popular revolt and Castro remains in control of the internal situation.

---The Policy Planning Council is currently preparing a National Policy Paper on Cuba which will review our present policy and possible alternative strategies. This paper will receive inter-agency consideration through the established procedures.

V. Dominican Republic

Our objective is to maintain at least that degree of political stability that will permit the development of a viable economy and democratic political institutions.

A major issue is the extent to which we are prepared to continue providing economic assistance, over the extended period required, to make economic and political development possible. Another issue is the extent to which we can expect democratic institutions to grow in a situation that requires the government to devote so much time and energy to preventing its own violent overthrow. Economic growth and development of democratic political institutions are interrelated, but success in the former does not automatically mean success in the latter.

---If the peso were devalued, the same level of assistance would result in accelerated economic growth. However, a U.S. effort to force a devaluation as a condition for assistance could bring about Balaguer's overthrow and a return to chaotic conditions. Since other needed reforms also have political implications, we expect performance to be slow.

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-11-

---The municipal elections scheduled for May 1968 will test the country's growth along democratic lines. A number of negative factors are converging that give cause for concern. It is extremely important that the Balaguer government weather this election period and we are planning a number of economic, political and psychological actions between now and the elections to help him do so.

---If Balaguer comes through the election period successfully, the odds on his survival for his full term will improve and the prospects for economic and social growth, as well as the development of democratic institutions, will be greatly enhanced.

VI. Ecuador

Our objective is to limit the dimensions of our current difficulties with the Arosemena Government and minimize their adverse effects on long-term U.S.-Ecuadorean relations.

The problem is to prevent further deterioration in relations while taking certain steps which we consider necessary.

---Withholding an Ambassador to Quito is the only appropriate response to President Arosemena's ejection of Ambassador Coerr last October. We must demonstrate to the rest of Latin America that we do not regard our Ambassadors as expendable pawns in the host country's political games.

---Insisting on adequate GOE performance for new AID lending is the only appropriate response to Arosemena's public statements last year criticizing Alliance loans and implying rejection of self-help requirements.

---The lack of new loans and the continued absence of a U.S. Ambassador may lead Arosemena to conclude that his best interests would be served by taking further steps toward a confrontation with the U.S. He might, for example, resume seizures of U.S. tuna boats fishing off Ecuador's coast.

---To restrain Arosemena from moving in this direction we are engaging in a dialogue with the GOE on the question of loan conditions, thus implicitly holding out the hope of new AID lending.

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SECRET

-12-

At the same time, the dialogue may serve to create the basis for new lending if events prove this to be advisable. Regarding a new Ambassador, we have said only that the matter is under study.

VII. Guatemala

Our objectives for 1968 are a significant reduction in the current high level of violence and the enactment of badly needed fiscal measures as a first step in a broader reform program.

The obstacles we face are the Guatemalan Army's determination to end communist-sponsored insurgency by extra-legal means and the oligarchy's strong opposition to any change in the existing economic and social structure.

---The Army's intensive counter-insurgency campaign has seriously weakened the communist insurgent movement, but the guerrillas have sufficient support to avoid annihilation and have turned increasingly to terrorism. In the face of the inability of the regular police and the courts to cope with the problem, the Army, with the support of Right-wing extremists, is eliminating suspected subversives by summary execution. The level of violence resulting from retaliatory killings has reached alarming proportions; two American military officials have been killed and we cannot rule out the possibility the insurgents may undertake a campaign of terror against Americans.

---We are now exploring the most effective means of using U.S. influence to induce the Army to end its sponsorship of clandestine organizations. We will have difficulty in convincing military leaders that the counter-terror is contributing to political instability, but pressure from us may induce them to control more closely the clandestine assassination squads and put an end to the killing of non-communist Leftists.

---We have contributed substantial amounts of equipment and training to the police through the Public Safety Program and we now are attempting to determine whether the police can usefully absorb additional assistance designed to improve their ability to control subversives by legitimate means.

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SECRET

-13-

---President Mendez is committed in principle to reform, but he has consistently retreated on the issue of tax reform in the face of heavy pressure from the right. He is keenly aware of the deep cleavages in society and has established as his top priority goal his survival in office and the maintenance of political stability.

---A tax reform commission is scheduled to submit its recommendations to the government in June and we are using our influence privately with key government officials, including the President, to stiffen their resolve to implement the recommendations. Should we attempt publicly to support the administration, however, the right would raise the bogey of U.S. intervention and the Guatemalan Congress would find it difficult to approve a meaningful tax law.

VIII. Guyana

Our objective is to prevent the establishment of a government led by communist-oriented Cheddi Jagan following the elections scheduled for late 1968 or early 1969.

The main obstacle is the racial loyalty of the East Indians, who number over half the population and who look to Jagan for leadership even though they do not share his Marxist-Leninist views. A Jagan government would be sympathetic to Castro and the Soviet Union and provide communists with a foothold for operations on the South American continent.

---We are striving to achieve our immediate objective by helping the government of Prime Minister Burnham through high impact AID projects to show concrete results in its economic and social development efforts prior to the elections.

---We have also encouraged Burnham's government to orient much of its economic development program toward the East Indian community and to take other economic, political and social measures to assure the East Indians that they need not fear an African dominated government.

IX. Haiti

Our major objectives are to insure that Haiti remains independent of communist control, to avoid the necessity for unilateral

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-14-

U.S. action when Duvalier dies or is overthrown, to achieve Latin American involvement in Haiti and to be in a position to bring our influence to bear for the establishment of stable democratic institutions in the post-Duvalier period.

The main issue is whether our current policy of correct and cool relations with Duvalier is the proper one, or whether we should take steps to influence the course of Haitian events through other means. Past experience has shown how difficult it is to operate economic programs with Duvalier in power and there seems little we can do now to effect basic political changes.

---The post-Duvalier period will be unstable and political conditions could bring to power an unfriendly government, possibly of Communist orientation. It is for this reason we carry on regular, quiet consultations with selected Latin American governments, are working with the OAS to install a large-scale technical assistance mission in Haiti, and are encouraging the formation of a Caribbean Security Arrangement.

---We removed our AID and military missions from Haiti in 1962 and 1963. None of the existing limited bilateral and multi-lateral programs permits us to influence the Haitian government significantly nor to check the deterioration of Haiti's political and economic life.

---Resumption of financial assistance even in the small amount that is needed would arouse criticism in this country and in Latin America that we are supporting a dictator. Yet we will probably be just as strongly criticized in a major crisis for not having laid the groundwork for a more active role in influencing a successor government.

X. Panama

Our objective is to conclude new canal treaties that will protect our interest in the existing canal, reduce sources of friction between the United States and Panama, and permit construction of a sea-level canal in Panama should we decide to do so at a later date.

The main problem in 1968 is that national elections both in Panama and the United States make it difficult for either country to take further action on the draft canal treaties. In Panama the

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~~SECRET~~

-15-

lame-duck Robles Government no longer has sufficient political power to sign the treaties or secure their approval by the National Assembly. Although the GOP has shown interest in discussing "clarification" of the existing treaty texts, we see no advantage in any further negotiations with the Robles Government and have indicated to Robles that we think it best not to pursue the matter further at thisttime.

---To date, the canal treaties have not become a campaign issue, but it is always possible that as the election draws nearer they may receive greater attention. In such case, both candidates might feel compelled to adopt a strongly nationalistic stand. We cannot estimate with any certainty how the new Panamanian president, to be elected in May, 1968 and inaugurated in October, may wish to deal with the treaties.

---Under these circumstances, we are seeking to prolong the present hiatus regarding the treaties until late 1968 or early 1969 when negotiations of the draft treaties can be concluded.

XI. Peru

Our objectives are to preserve constitutional, democratic government, which is threatened by the difficulty which the Belaunde Administration is having in coping with the present economic crisis, and to assist Peru in its efforts to resume the rate of economic growth achieved during 1961-66.

The main problem is that Belaunde heads a weak minority government and our ability to influence decisions and events in Peru has been reduced to almost zero because of the difficulties we have been having since the outset of the Belaunde Administration in extending a significant amount of bilateral assistance to Peru and the strain on our relations this has produced. Our ability to engage in a lending program in the near future, and thus our leverage, remain in serious doubt.

---Peru's purchase of advanced military equipment has raised the issue of the application of the Conte-Long and Symington Amendments.

---Failure to resolve the issue of the International Petroleum Company properties presents a danger of FAA Hickenlooper action as well as termination of Peru's sugar quota.

---Peruvian seizure of U.S. tuna boats within 200 miles offshore lurks as a danger, and this year is tied to the ship loan legislation.

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-16-

---A further deterioration of the economic situation would imperil the present delicate political balance and could provoke a military coup.

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